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SIPDIS

SENSITIVE

STATE FOR WHA, WHA/CAR, WHA/EPSC, EB/OMA; NSC FOR SHANNON
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SUBJECT: DOMINICAN POLITICS #26: CHANGE IN THE WIND FOR
CAFTA-DR

11. (SBU) Following is number 26 in our series on Leonel
Fernandez's first year in office:

Change in the Wind for CAFTA - DR

For the first time Leonel Fernandez's administration appears
to be moving to take an active hand in shaping public opinion
on the free trade agreement and assuming responsibility for
negotiating the deals that inevitably must be cut in order to
get to ratification.

It appears to us that the wind has begun to change. Over
months we had been following the grindings of the Senate
Special Commission on the agreement, huddling frequently with
its president Senator Alexander Santos. Last week it looked
as if all of that had turned to dirt: senators voted a
resolution on Friday urging that compensatory measures for
industry be presented by the Presidency, and on Tuesday we
got a copy of the report on CAFTA made to the Senate by
Santos, committee: seven pages of rambling narrative that
concluded with generalities without explicitly endorsing
CAFTA, and with the recommendation that under these
circumstances we recommend opening a space of communication
with the Executive in order to work out the viability of
fiscal measures that will permit the country to compete in
the scenario of free trade set up by CAFTA.⁸

A Propitious Set of Events

The apparent turn is tied to a powerful concatenation of
events. First, the IMF team headed by Guy Meredith and Jose
Fagenbaum came two weeks ago for their first formal review of
the February 1 standby. They made well-publicized rounds
with business, the legislature, and the administration. When
they called on the Ambassador, IMF resident representative
Ousmene Mandeng inquired, just to be sure, whether in fact
the Dominicans would be bound by the obligations of CAFTA as
soon as they ratified it. (Taxes on trade constitute almost
32 percent of government revenues). Yes, we replied;
nothing could be clearer.

In their public comments the IMF team congratulated the
administration on hitting the quantitative targets. And they
explicitly insisted, in private and in public, on the
Dominicans' binding commitment in the standby to propose a
major tax reform proposal by the end of June.

The IMF insistence took aback some politicians and business
interests, but it lends the Fernandez administration
political cover. A similar forcing play in December
concerning passage of a 2005 budget complying with the IMF
pre-conditions allowed Fernandez to obtain repeal of the
protectionist tax on fructose drinks without ceding fiscal
favors to sugar.

Second, the USG invited Fernandez and other presidents to
Washington May 11-12 to endorse the CAFTA and lobby for it.
The President and his advisor for public affairs and the
press, sociologist Carlos Dore Cabral, have carefully shaped
domestic coverage of the event, and local papers have stuck
closely to the presidential feed for most of their news.
This opened with their account of Fernandez's call on Bill
Clinton, which strongly hinted that the former president
would go to bat for CAFTA. Very little was written about
Fernandez's erudite Monday speech to business interests, but
all of the papers repeated the President's sound bite in
extemporaneous remarks afterwards that the country would be
ruined⁸ without the benefits of CAFTA and Dominican
illegal immigration to the United States would increase.

We have learned that Dore Cabral has asked a respected
independent local consultant to meet with the presidency's
public affairs people to outline to them the principal issues
in the tax reform. Secretary of Finance Vicente Bengoa met

formally on May 10 with the affluent Council of Private Entrepreneurs (CONEP) and assured them, "Our differences with you over compensatory measures mostly concern form, not substance." And Frederic Emam-Zade, the economist provisionally heading Fernandez's Fundacion Global, turned to the Embassy's Franklin Center Reference Library for background material on CAFTA; he was delighted at the quantity and quality furnished and commented that he would be putting it on a CD for Leonel.

A turn with the U.S. leadership

Third, and most symbolic for a country so close to the United States and so far from God, Leonel Fernandez has now been to the Oval Office. The friendly reception by the United States President can give Fernandez the clout and the spiritual lift he really needs in order to confront the difficult fiscal and political interests tied up in CAFTA, tax reform, and the opposed interests of the monied elites and the citizenry. Fernandez has done CAFTA proponents in the United States a service, and in return he has come away fully recognized as a partner in the hemisphere. Our interest is now in seeing Fernandez move, after these many months of generalities, to take on this dossier personally and directly after his return to Santo Domingo today. He is unlikely to finish the job quickly or before the U.S. Congress finishes its own deliberations, but he now has the authority to deal with CAFTA.

12. (U) Drafted by Michael Meigs

13. (U) This piece and others in our series are available on our classified SIPRNET website <http://www.state.sgov.gov/p/wha/santodomingo/> along with extensive other material.

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